KNYSNA MUNICIPALITY



VIREMENT POLICY

2020/2021

Effective date 01 July 2020

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DOCUMENT DEFINITION

Version	1

Date			
Summary	This document is the Virement Policy applicable to the Knysna Municipality		
Signature	______________________	**Date**:	______________
	MUNICIPAL MANAGER		
Approved by the Council	______________________	**Date**:	______________
	Resolution		
Effective date	**1 July 2020**		
Next revision date	**March 2021**		

PART 1: PREAMBLE

1.1. **WHEREAS** Section 81(1)(d) of the MFMA states *inter alia* that "*The Chief Financial Officer of a municipality-…must advise senior managers and other senior officials in the exercise of powers and duties assigned to them in terms of section 78 or delegated to them in terms of section 79;…";* and

1.2. **WHEREAS** the Chief Financial Officer therefore has a statutory duty to ensure that adequate policies and procedures are in place to ensure an effective system of financial control; and

1.3. **WHEREAS** a municipality's virement policy and its underlying administrative process within the system of delegations is one of these controls**;** and

1.4. **WHEREAS** Section 78(1)(b) of the MFMA states *inter alia* that "*Each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure-…(b) that the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently;";*

1.5. **WHEREAS** the Municipal Budget and Reporting Regulations, 2008 and related annual Municipal Budget Preparation Circulars (e.g. Circular 51 of 2010/11, clause 4.6) provide for a Municipal Virement Policy; and

1.6. **NOW THEREFORE** the Knysna Municipal Council adopts the Municipal Virement Policy as set out in this document.

PART 2: PURPOSE

2.1. This policy aims to provide guidelines to senior management in the use of virements as a mechanism in their day-to-day management of their budgets. In addition, it specifically aims to empower senior managers with an efficient financial – and budgetary system to ensure optimum service delivery within the current legislative framework of the MFMA and the Municipality's system of delegations.

PART 3: CONTEXT, PRINCIPLES, VALUES AND ISSUES

4.1. Webster's New Millennium™ Dictionary of English defines "Virement" as "a regulated transfer or re-allocation of money from one account to another, especially public funds."

4.2. A virement represents a flexible mechanism to effect budgetary amendments within a municipal financial year.

4.3. Changing circumstances and priorities during a financial period may give rise to a need to virement (transfer) funds within or between approved Votes, as defined in the Municipal Finance Management Act 56 of 2003 (MFMA).

4.4. The treatment of such instances may, however, be dependent on whether an adjustments budget is required or not and for this purpose the Virement Policy has been developed.

PART 5: SCOPE OF APPLICATION

5.1. This Policy is applicable to all municipal officials and must be complied with in every case where virements are dealt with.

5.2. All applications must be referred in the first instance, to the CFO for consideration and advice.

PART 6: MAINTENANCE

6.1. Given the changing nature of the regulatory, control and operational environment of the Municipality, this Policy will be regularly reviewed and updated on an on-going basis

PART 7: IMPLEMENTATION

7.1. This Policy is effective from the date of approval by Council.

7.2. It is the responsibility of the various Line Department Managers to bring the content of this Policy to the attention of all parties concerned.

PART 8: GOVERNANCE AND REGULATORY FRAMEWORK

8.1. All disposals or letting of assets in terms of this Policy shall comply with the:

8.1.1. Constitution of the Republic of South Africa, 1996 as amended;
8.1.2. Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) – section 118 – [MSA];
8.1.3. Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) – section 71(1)(g)(iii) – [MFMA];
8.1.4. Municipal Budget and Reporting Regulations, 2008 and related annual Municipal Budget Preparation Circulars; and
8.1.5. Any other applicable legislation, regulations and policies that may govern virements and that are not in contradiction with the primary legislation referred to above.

8.2. The MFMA regulates as follows regarding the incurring of expenditure against budgetary provisions.

8.2.1. Section 15 – Appropriation of funds for expenditure *“A municipality may, except where otherwise provided in this Act, incur expenditure only-*

(a) in terms of an approved budget; and
(b) within the limits of the amounts appropriated for the different votes in an approved budget.”

8.2.2. Unauthorised Expenditure (MFMA Definition) *“in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), and includes-*

(a) overspending of the total amount appropriated in the municipality's approved budget;
(b) overspending of the total amount appropriated for a vote in the approved budget;

(c) expenditure from a vote unrelated to the department or functional area covered by the vote;
(d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
(e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
(f) a grant by the municipality otherwise than in accordance with this Act;"

8.2.3. Overspending (MFMA Definition)

"*(a) in relation to the budget of a municipality, means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;*
(b) in relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or
(c) in relation to expenditure under section 26, means causing expenditure under that section to exceed the limits allowed in subsection (5) of that section;"

8.2.4. Section 71(1)(g)(iii) states inter alia *"(1) The accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month:…(g) when necessary, an explanation of-*

…(iii) any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget…."

8.3. The Municipal Budget and Reporting Regulations, 2008 and related annual Municipal Budget Preparation Circulars (e.g. Circular 51 of 2010/11, clause 4.6) provide that:

"The MFMA and the Municipal Budget and Reporting Regulations seek to move municipalities away from the traditional approach of appropriating/approving budgets by line item. The aim is to give the heads of municipal departments and programmes greater flexibility in managing their budgets. To further facilitate this, each municipality must put in place a council approved virements policy, which should provide clear guidance to managers of when they may shift funds between items, projects, programmes and votes.

The following principles must be incorporated into municipal virements policies:

(a) Virements should not be permitted in relation to the revenue side of the budget;
(b) Virements between votes should be permitted where the proposed shifts in funding facilitate sound risk and financial management (e.g. the management of central insurance funds and insurance claims from separate votes);
(c) Virements from the capital budget to the operating budget are not permitted, except on grant funding subject to the approval of the BTO office (Manager budget and CFO approval); as well as stakeholder approval
(d) Virements towards personnel expenditure should not be permitted;

(e) *Virements to or from the following items should not be permitted: bulk purchases; debt impairment, interest charges; depreciation, grants to individuals, revenue foregone, insurance and VAT;*
(f) *Virements should not result in adding 'new' projects to the Budget;*
(g) *Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted; and*

The policy must also indicate how the virements process is to be managed within the municipality so as to enable the tracking and reporting of funding shifts."

8.4 FINANCIAL RESPONSIBILITIES

8.4.1 Strict budget control must be maintained throughout the financial year in order that potential overspends and or income under-recovery within the individual vote departments is identified at the earliest possible opportunity. (Section 100 of the MFMA). The CFO has a statutory duty to ensure that adequate policies and procedure are in place to ensure an effective system of financial control. The budget virement process is one of these controls. (Section 27(4) MFMA).

8.4.2 It is the responsibility of each Manager or Head of department or activity to which funds are allocated, to plan and conduct assigned operations so as not to expend more funds than budgeted. In addition, they have the responsibility to identify and report any irregular or fruitless and wasteful expenditure in terms of section 78 and 102 of MFMA

PART 9: VIREMENT REQUIREMENTS AND RESTRICTIONS

9.1. The virement process represents the major mechanism to align and take corrective (financial / budgetary) action within a Vote during a financial year.

9.2. Virement can be approved as follows:
9.2.1. 0 - 1,000, 000.00 - Director recommends to the CFO for approval
9.2.2 1,000,001.00 - 2,000,000.00- CFO recommends to the AO for approval
9.2.3 >2,000,001.00 - AO recommends to Council for approval

9.3. In order for a "Vote" to transfer funds from one cost element or capital project to another cost element or capital project, a saving has to be identified within the monetary limitations of the approved "giving" cost element or capital project allocations on the respective budgets.

9.4. Sufficient, (non-committed) budgetary provision should be available within the "giving" vote's cost element or project concerned to give effect to the budgetary transfer (virement). In addition, the transferring function must clearly indicate to which cost

element or capital project the budget provision will be transferred to and provide a clear motivation for the transfer.

9.5. Any budgetary amendment of which the net impact will be a change to the total approved annual budget allocation and any other amendments not covered in this policy are to be considered for budgetary adoption via an adjustments budget (per MFMA Section 28).

9.6. In terms of Section 17 of the MFMA a municipality's budget is divided into an operating and capital budget and consequently no virements are permitted between Operating and Capital Budgets except if it is approved grant received

9.7. A virement may not create new policy, significantly vary current policy, or alter the approved outcomes / outputs as approved in the IDP for the current or subsequent years (section 19 and 21 MFMA).

9.8. Virements resulting in adjustments to the approved SDBIP need to be submitted with an adjustments budget to the Council with altered outputs and measurements for approval (MFMA Circular 13 page 3 paragraph 3).

9.9. No virement may commit the Municipality to increase recurrent expenditure, which commits the Council's resources in the following financial year, without the prior approval of the Mayoral Committee. This refers to expenditures such as entering into agreements into lease or rental agreements such as vehicles; photo copier's or fax machines.

9.10. No virement may be made where it would result in unauthorised expenditure (section 32 MFMA)

9.11. No virement shall add to the staff establishment of the Municipality without the approval of Municipal Manager and the CFO.

9.12. Budget may only be transferred to and from Salaries if prior approval is obtained from Council and or the Municipal Manager as applicable. .

9.13. If the virement relates to an increase in the work force establishment, then the Council's existing recruitment policies and procedures will apply.

9.14. Virements may not be made in respect of ring-fenced allocations.e.g. vehicle maintenance budget, insurance portfolio, interest on annuity loans.

9.15. No virements are permitted in the first and final month of the financial

9.16. Virement amounts may not be rolled over to subsequent years, or create expectations on following budgets. (Section 30 MFMA).

9.17. An approved virement does not give expenditure authority and all expenditure resulting from approved virements must still be subject to the Municipal Supply Chain Management Policy and System as periodically reviewed.

9.18 No virement proposal shall affect amounts to be paid from another vote without the prior written agreement of the Manager of that Vote (Section 15 MFMA).

9.19 Virements in capital budget allocations are only permitted within the specified action plans and not across funding sources.

PART 10: OPERATING BUDGET VIREMENTS

10.1. Virements are not allowed to utilise special purpose budgetary allocations, adopted by Council as such and to which specific Council recommendations apply (e.g. budget strategy for growth in repairs and maintenance provisions) and which result from specific resolutions adopted when adopting the budget, as virement sources.

10.2. Sound motivations should be provided for all virements, as provided for on pro forma virement documentation.

10.3. Specific virement limitations:

10.3.1. No virements are permitted to and from Grants and Subsidies Paid, except if supported by Council decision.

10.4. Salaries, Wages and Allowances Subjective Category:

10.4.1. Virements are allowed between expenditure line items of - and only if these virements are within - this subjective category.
10.4.2. Virements to and from this subjective expenditure category are subject to the approval of the CFO.

10.5. Remuneration of Councillors

10.5.1. No virements to and from this category are allowed.

10.6. General Expenditure and Repairs and Maintenance (Primary)

10.6.1. Virements to and from expenditure line items within these categories are allowed (Virements are allowed from General Expenditure to Repairs and Maintenance) however, must be reported at next finance committee meeting.

10.7. The following expenditure items categories are not to be used as sources of virements, but virements are allowed within each category:

10.7.1. Training related expenditure
10.7.2. Bargaining Council provisions and skills development levies
10.7.3. Insurance related provisions
10.7.4. Pensioner and Continued Members

10.8. Contracted Services and Collection Costs

10.8.1. Virements to and from these elements are allowed.

10.9. No virements will be permitted to and from the following expenditure categories, unless such amendments are effected within the expenditure items:

(i) Bad Debts
(ii) Interest Charges and Depreciation
(iii) Appropriation Accounts

10.10. Revenue

10.10.1. No virements will be approved on any Revenue element. Revenue provisions' amendments are to be adopted via an adjustments budget, but cash flow alignments are permissible.

10.11. Secondary Operating Expenditure items

10.11.1. Virements are allowed within the same cost elements. The service requestor and service provider must both endorse such virements.
10.11.2. Internal Utilities and Bulk Internal Utilities virements are permissible, on condition that the respective Internal Utilities Revenue and Bulk Internal Utilities Revenue are amended simultaneously.
10.11.3. Virements are only permitted within the same cost element in the following categories:
(i) Activity Based Recoveries
(ii) Internal Utilities
(iii) Bulk Internal Utilities
10.11.4. Virements may not increase the total approved budget of that cost element.
10.11.5. Virements are not permissible in relation to Support Service Charges.
10.11.6. No virements which relate to Insurance departmental premiums or Internal Capital Charges will be permitted.

10.12. Ward Allocations Projects

10.12.1. All conditions under "Operating Budget Virements" section above should be met, as well as the following when virementing between ward allocation projects
10.12.2. Only virements between existing projects approved by Council, within the same ward will be permitted.
10.12.3. Virements will only be considered if approved by the relevant project managers and finance managers of the projects involved.
10.12.4. Motivations for virements between projects should clearly state the reason for the saving within the "giving" project, as well as the reason for the additional amount required.

10.13. No funds may be viremented between votes (Directorates) without approval in an adjustment budget

PART 11: CAPITAL BUDGET VIREMENTS

11.1. Only virements which relate to projects approved as part of annual or adjustments budgets will be permitted.
11.2. No virements of which the affect will be to add "new" projects onto the Capital Budget will be allowed.
11.3. Virements must be between projects of similar funding sources (e.g. Loans, Internal Funds, Grants).
11.4. Implementation of the project from which funds are viremented may not be prejudiced (i.e. must not hinder completion of the project).
11.5. Motivations for virements should clearly state the reason for the saving within the "giving" project, as well as the reason for the additional amount required.

11.6 Ward Allocations Projects:

11.6.1 Only virements between existing projects approved by Council, within the same ward will be permitted.
11.6.2 Virements will only be considered if approved by the relevant project managers and finance managers of the projects involved.

11.6.3 Motivations for virements between projects should clearly state the reason for the saving within the "giving" project, as well as the reason for the additional amount required.

PART 12: PROCESS AND ACCOUNTABILITY

12.1.1. Accountability to ensure that virement application forms are completed in accordance with Council's virement policy and are not in conflict with the Municipality's strategic objectives manifests with the relevant Senior Manager.
12.1.2. Completed virement documentation is to be effected by the CFO.
12.1.3. Virements approved and processed will be reported for information to the Mayor on a quarterly basis. All virement proposals requests must be completed on the appropriate documentation and forwarded to the relevant finance official for checking, authorisation and implementation.
12.1.4. All virements must be signed by the Vote holder (per department) and the Director within which the vote is allocated. As indicated in 9.2.
12.1.5. A virement form must be completed for all Budget Transfers.
12.1.6. All documentation must be in order and approved before any expenditure can be committed or incurred.
12.1.7. The Municipal Manager will report to the Mayor on a quarterly basis on departmental main vote those virements that have taken place during that quarter and monthly to the Finance Committee.

PART 13: DEFINITIONS

Accounting Officer/AO (MFMA) "- (a) in relation to a municipality means the municipal official referred to in section 60; or…"

Approved Budget (MFMA) " - means an annual budget-
(a) approved by a municipal council; or

1.1. (b) approved by a provincial or the national executive following an intervention in terms of section 139 of the Constitution, and includes such an annual budget as revised by an adjustments budget in terms of section 28;"
1.2.

Budget-related policy means a policy of a municipality affecting or affected by the annual budget of the municipality.

Capital Budget This is the estimated amount for capital items in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost of which is normally written off over a number of fiscal periods.

Chief Financial Officer/CFO (MFMA) "a person designated in terms of section 80(2)(a)"

Council means the council of a municipality referred to in section 18 of the Municipal Structures Act.

Cost Centre - Cost centre is a cost collector which represents a logical point at which cost (expenditure) is collected and managed by a responsible cost centre owner.

Cost element - Cost elements distinguish between primary and secondary cost elements. Primary cost elements are expenditure items mainly generated outside the organisation. Secondary cost elements are utilised to reallocate cost by means of assessments, internal billing or activity based recoveries.

Director - Section 56 of the Systems Act states inter alia that: "Appointment of managers directly accountable to municipal managers - (a) a municipal council, after consultation with the municipal manager, appoints a manager directly accountable to the municipal manager…" Also include Section 57 of the Systems Act.

Financial year - The 12 month period between 1 July and 30 June.
Line Item an appropriation that is itemized on a separate line in a budget adopted with the idea of greater control over expenditures.

Unauthorised Expenditure (MFMA Definition)

Overspending (MFMA Definition) 1.2. "Operating Budget" The Town's financial plan, which outlines proposed expenditures for the coming financial year and estimates the revenues used to finance them.

Ring Fenced an exclusive combination of line items grouped for specific purposes for instance salaries and wages.

Service delivery and budget implementation plan means a detailed plan approved by the mayor of a municipality in terms of section 53(1) (c) (ii) for implementing the municipality's delivery of municipal services and its annual budget.

Vote (MFMA) "(a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
(b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned." ***[See annexure "A1" for current Vote structure]***

Virement - The process of transferring an approved budgetary provision from one operating cost element or capital project to another within a vote during a municipal financial year and which results from changed circumstances from that which prevailed at the time of the previous budget adoption.

MFMA: - The Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

PART 15 ABBREVIATIONS

C - Council
MM - Municipal Manager
HOD's - Heads of Departments
CFO - Chief Financial Officer
IDP - Integrated Development Plan
MFMA - Municipal Finance Management Act No. 56 of 2003
SDBIP - Service delivery and budget implementation plan
CM - Council Minute/'s
FC - Finance Committee
CIDS - Central Inventory distribution system
DIR - Director (Sec 56 or 57 appointment)

ANNEXURE A – VOTE CLASSIFICATION

Municipal vote and sub-vote structure

Virements will be ONLY allowable within a vote except approved:

1) Transfers recognised,
2) Insurance portfolio,
3) Vehicles maintenance,

Vote 1	***Executive & Council***	
1.1	*Council*	*1.1 - Council*
1.2	*Municipal Manager*	*1.2 - Municipal Manager*
1.3	*Communication*	*1.3 - Communication*
1.4	*Performance, Risk and Auditing*	*1.4 - Performance, Risk and Auditing*
Vote 2	***Corporate Services***	
2.1	*Director: Corporate*	*2.1 - Director: Corporate*
2.2	*Committee Services*	*2.2 - Committee Services*
2.3	*Administration*	*2.3 - Administration*
2.4	*Estates*	*2.4 - Estates*
2.5	*Human Resources Management*	*2.5 - Human Resources Management*
2.6	*Legal Services*	*2.6 - Legal Services*
2.7	*Property Records Management*	*2.7 - Property Records Management*
2.8	*Public Participation*	*2.8 - Public Participation*
Vote 3	***Financial Services***	
3.1	*Director: Finance*	*3.1 - Director: Finance*
3.2	*Budget and Treasury Office*	*3.2 - Budget and Treasury Office*
3.3	*Income*	*3.3 - Income*
3.4	*Information Technology*	*3.4 - Information Technology*
3.5	*Supply Chain Management*	*3.5 - Supply Chain Management*
3.6	*Expenditure Management*	*3.6 - Expenditure Management*
Vote 4	***Strategic Services***	
4.1	*Strategic Services*	*4.1 - Strategic Services*
Vote 5	***Planning & Development***	
5.1	*Director: Planning*	*5.1 - Director: Planning*
5.2	*Environmental Management*	*5.2 - Environmental Management*
5.3	*Housing*	*5.3 - Housing*
5.4	*Integrated Development Planning*	*5.4 - Integrated Development Planning*
5.5	*Local Economic Development*	*5.5 - Local Economic Development*
5.6	*Town Planning*	*5.6 - Town Planning*
Vote 6	***Community Services***	
6.1	*Director: Community*	*6.1 - Director: Community*
6.2	*Library and Heritage*	*6.2 - Library and Heritage*
6.3	*Parks and Recreation*	*6.3 - Parks and Recreation*
6.4	*Protection Services*	*6.4 - Protection Services*
6.5	*Waste Department*	*6.5 - Waste Department*
Vote 7	***Electrical Services***	
7.1	*Electrical Department*	*7.1 - Electrical Department*
7.2	*Workshop*	*7.2 - Workshop*
Vote 8	***Technical Services***	
8.1	*Director: Technical Services*	*8.1 - Director: Technical Services*
8.2	*Roads and Public Works*	*8.2 - Roads and Public Works*
8.3	*Water and Sewer*	*8.3 - Water and Sewer*

ANNEXURE B

APPLICATION FOR VIREMENTS

A saving on an amount budgeted for a specific purpose may be applied to meet budgeted expenditure for another purpose and such virement, not exceeding R1 000 000 in a specific case and within a service department shall be permitted where the Head of Depatment and the Chief Financial Officer agree. No saving on an amount budgeted for a specific purpose, which exceeds R 1 000 000 or which is not in the same Directorate may be applied to meet expenditure for another purpose, whether budgeted or not, without the approval of the Accounting Officer for amounts upto R 2 000 000 and the Council for amounts exceeding R 2 000 000. **[Virement Policy adopted under 30 May 2018]**

Multiple Virements:

Date

KNYSNA
Municipality Munisipaliteit uMasipala

Ref# :

New Scoa Code	Old Vote number	Old Description	Scoa Item Description	Budget	TRANSFER IN	TRANSFER OUT	New Budget
9/241-7-16	35-83-50-18-7502	Travelling & Subsistance	S&T Travel claim own training	1000	1000		2,000.00
9/241-32-807	35-83-50-18-7502	Travelling & Subsistance	S&T Daily allowance training	0	4500		4,500.00
9/241-33-808	35-83-50-18-7502	Travelling & Subsistance	S&T Accomodation training	-	2500	0	2,500.00
9/241-7-15	33-48-50-18-7502	Travelling & Subsistance	S&T Travel claim own other	34,000.00	-	8,000.00	26,000.00
				35,000.00	8,000.00	8,000.00	35,000.00

Motivation

Proposed & Recommended : HOD ....

Director: ....

Acting Manager : Budget Office..

CFO:..

Verified by...

Processed:-y...